OVERVIEW OF BUSINESS FORECAST: IRAN
With Iran heading towards the Presidential elections scheduled on May 19, the re-election of the Hassan Rouhani is significantly contingent upon the economic development which was promised during his previous election campaign in 2013. Foreign Direct Investments (FDI) was one of the most crucial elements in the Iranian calculus of the economic revival. Furthermore, following the signing of the Joint Comprehensive Plan of Action (JCPOA) in July 2015 and the subsequent Implementation day in January 2016, there has been a sense of cautious optimism surrounding economic re-engagements with Iran by international businesses and there seems to be at least some discrepancy between the actual expectations of local Iranians and the existing economic situation in the country. The report thus aims to gauge some of the factors contributing to this cautious optimism as well as those hindering investor's confidence in Iran following the JCPOA.
The challenges are broadly categorized into International and Domestic factors; however, they are not mutually exclusive and continue to influence each other.

INTERNATIONAL FACTORS

UNCERTAINTY OVER US APPROACH TOWARDS IRAN:
One of the greatest factors that have significantly threatened business continuity, involving foreign business engagements in Iran, has been the uncertainty surrounding US engagements with Iran. Despite the repeated threats of US President Donald Trump to withdraw from the JCPOA, followed by the executive order on January 27 to ban entry of citizens of seven Muslim-majority countries, including Iran, and at the same time confirmation of the US administration of Iran’s adherence to the nuclear agreement, and the approval of the latest multi-billion dollar deal with Boeing, an American aviation giant, sends mixed signals on US stand vis-à-vis Iran. Although the former threat had little credibility, given that the JCPOA is a UN initiative as opposed to a US initiative, requiring consensus from other states, including China and European majors like UK, France, Russia and Germany, which either already have or seek to re-establish business relation with Iran. Irrespective of its credibility, it triggers uncertainty in the market and has forced at least some potential investors to re-think their decisions on investments in the country. Moreover, the decision concerning visa regulations, though currently facing significant opposition, if implemented, may hamper further foreign investments in Iran.

RECURRENT MISSILE TESTS AND BRINKMANSHIP IN PERSIAN GULF AND ADDITIONAL UNILATERAL SANCTIONS:
The continued hostilities in the Persian Gulf, featuring recurrent provocative naval manoeuvres and missile tests have invited additional US sanctions on Iranian entities suspected of being linked with the Islamic Revolutionary Guard Corps (IRGC) and facilitating its ballistic missile programme; with the latest in the series of sanctions being announced by the U.S. Department of the Treasury’s Office of Foreign Assets Control (OFAC) on April 13.
Moreover, given that the IRGC is involved in most, if not all the major business sectors in Iran, significantly increases the risk of attracting US sanctions to foreign entities, perceived to be doing business with the group, which in turn may result in loss of a larger and lucrative US market, stemming further business engagements with Iran.

LOW ENERGY PRICES AND ITS IMPACT ON POTENTIAL FDI IN IRAN'S ENERGY AND ALLIED SECTORS
The latest cuts in oil production, as agreed by the Organization of Petroleum Exporting Countries (OPEC) to tackle the oil glut in the market, has led to a slight rise in oil prices to roughly around US$ 50/barrel. However, overall it continues to be low and is expected to stay in the same range for the next few months at best. Additionally, uncertainty also lingers on the adherence of the OPEC members to the pledged cuts, as lower production has significantly hampered the income and warrants additional measures to balance the budgets. This makes investments in energy infrastructure, especially exploration and recovery of new oil and gas fields economically unviable. Furthermore, the continued delays and uncertainty over the Iranian Petroleum Contract (IPC), a risk service contract which includes integrated exploration, development and production, aimed at drawing International Oil Companies (IOC’s) to invest capital and technology and revive Iran's ageing energy infrastructure is also another factor that which is likely to have a direct impact on the FDI, which the Iranian authorities were expecting, following the JCPOA agreement to upgrade the ageing oil infrastructure.
DOMESTIC FACTORS

SECURITY SCENARIO

Given that majority of Iran's major oil wells and allied infrastructure lies in its western and south western provinces, especially in the province of Khuzestan and Kermanshah, the region is of economic and strategic significance. Furthermore, it is also home to the minority Arab and Kurdish population respectively, which accuse the central government of persistent marginalization and demand autonomy, manifesting in frequent instances of civil unrest as well as regular acts of militancy by militant groups linked to the Arab Struggle Movement for Liberation of Ahwaz (ASMLA) in Khuzestan, and Kurdish militant group, Party of Free Life of Kurdistan (PJAK) among others, in and around Kurdish dominated regions of Kermanshah and Kordestan Province.
High unemployment rates have also significantly contributed to the aforementioned levels of unrest in these outlying areas in the aforementioned locales. Unemployment rates in these areas are among some of the highest in the country are more than the national average, despite the fact that the region has some of the largest oil wells in the country.
Moreover, certain alleged administrative mismanagement by the Iranian authorities like building dams aimed at redirecting water to other areas which has affected local businesses and agriculture along with disruptions caused by frequent dust storms and the government's limited successes in tackling the situation, further reinforces the sense of marginalization. Additionally, the violent suppression of dissidents only exacerbates the tensions further. Moreover, the militant attacks in these areas continues to be primarily asymmetric in nature, targeting security personnel and occasional claims of attack on energy infrastructure, which is difficult to verify given the ‘media blackout’ in these areas enforced by the security forces. Nevertheless, given the continued presence of logistical bases for these groups along the Iran-Iraq border, which security forces from both the countries have failed to destroy completely, the threat of additional attacks on major energy infrastructure continues to persist.
SISTAN BALUCHISTAN

Similarly, issues involving separatist sentiments are present in the Sistan- Baluchistan province in south-east of Iran, where local militant group like Jaish al-Adl or the Army of Justice, continues to operate along the Iran-Pakistan border areas. However, the attacks are primarily focused on security forces and occasionally on transport and communication infrastructure. With this in mind the latest developmental projects in the area are part of the overall strategy of the Iranian government to tackle unemployment in the region and thus bring down the risk of militancy and drug abuse in the region. In light of these, it remains to be seen if these measures are likely to pay dividends which the Iranian authorities have estimated. That said, given the interests of India and lately by Japan to invest in the Chabahar port in the province, it remains essential for these players to factor in the costs of contingencies involving acts of militancy in the region. Despite lack of precedence of the Baluchi militant group attacking major infrastructure, including ports, threat of militancy continues to persist.

Finally, though Islamic State (IS) perpetrated attacks have not materialized or reported in the country in recent years, given the deep involvement of Iran in anti-IS operations in Iraq and Syria as well as it being a Shia dominated country- which IS considers as heretics, possibility of an attack eventually materializing continues to remain. This view is further bolstered by regular reports of dismantling of IS cells from across the country, indicating the groups continued interests in perpetrating acts of militancy in the region.
CONTINUED DETENTION OF FOREIGN AND DUAL NATIONALS ACROSS COUNTRY AND ALLEGED HUMAN RIGHTS VIOLATIONS

Iran continues to reject the dual nationality status of its citizens, most of which are either European, Canadian or American nationals. Such entities, in most of the cases are cognizant of the local customs and traditions and in a better position to understand the local businesses dynamics, compared to other foreign nationals. Instances involving frequent arrests of such entities on charges as serious as spying and espionage further fuels uncertainty and demonstrates hostility towards foreign nationals by certain elements within the Iranian establishment, which is detrimental to doing business and may keep foreign investments away from the country. Furthermore, violent suppression of dissidents and execution of opposition members and “terrorists” continues unabated even under Rouhani’s administration demonstrating a poor human rights record. This has led to extension of EU sanctions featuring travel ban and assets freeze on April 11 as well as additional sanctions on Iranian entities by the OFAC on April 13.

MEDIA RESTRICTIONS AND EXTENSIVE INTERNET SURVEILLANCE HAMPERING BUSINESS CONTINUITY

The heightened surveillance and intensive government media intervention on press and other forms of media has been in place since the inception of the Revolution in 1979. Further, internet restrictions were in place especially following the 2009 country-wide protests also termed as ‘Green Movement’ following the alleged rigging of elections, which gave the Populist Presidential candidate Mahmud Ahmadinejad a second term in office. The incident witnessed blocking of social media sources like twitter and Facebook and arrest of many protestors. Now, give the recurrent threat of attacks by the Islamic State (IS) and other militant and separatist groups in the country, the security forces continue to maintain strict control on the internet as well as media in general under the pretext of safeguarding the internal security situation. Additionally, as precedence suggests, threat of cyber-attacks and virtual espionage on foreign businesses operating in the country by pro-regime and conservative factions aimed at attaining business secrets and pattern of economic engagements operating in Iran, remains ever-present.
BANKING ISSUES AND OPAQUE SYSTEM
Multiple attempts to introduce measures to reform the existing banking sector to enable major Iranian banks like the Central Bank of Iran (CBI) to re-integrate with the global banking network and aid sustained economic growth, has witnessed significant difficulties. This can primarily be attributed to the vested political interests of major players, including entities linked to the IRGC, which benefitted substantially as a result of economic policies of the Ahmadinejad government till 2013 and which actively opposed the bill for reforms in the Iranian Parliament (Majlis). However, with moderates and reformist parties winning a comfortable majority in the Parliament, the reforms bill, especially those empowering the CBI with supervisory powers over other banks, is more likely to be discussed and passed, however, any radical reforms in a very short period of time, remains unlikely at this point.
VOTER’S CONFIDENCE IN ROUHANI AND IMPACT ON ELECTION OUTCOME
One of the greatest factors that have significantly threatened business continuity, involving foreign business engagements in Iran, has been the uncertainty surrounding US engagements with Iran. Despite the repeated threats of US President Donald Trump to withdraw from the JCPOA, followed by the executive order on January 27 to ban entry of citizens of seven Muslim-majority countries, including Iran, and at the same time confirmation of the US administration of Iran’s adherence to the nuclear agreement, and the approval of the latest multi-billion dollar deal with Boeing, an American aviation giant, sends mixed signals on US stand vis-à-vis Iran. Although the former threat had little credibility, given that the JCPOA is a UN initiative as opposed to a US initiative, requiring consensus from other states, including China and European majors like UK, France, Russia and Germany, which either already have or seek to re-establish business relation with Iran. Irrespective of its credibility, it triggers uncertainty in the market and has forced at least some potential investors to re-think their decisions on investments in the country. Moreover, the decision concerning visa regulations, though currently facing significant opposition, if implemented, may hamper further foreign investments in Iran.

RELATIVELY STABLE SECURITY SITUATION AS COMPARED TO NEIGHBOURHOOD
Despite the persistent threat of militant attacks and separatist sentiments, absence of any major attacks in central locales over the recent years, indicates relatively stable security environment, especially in major cities like Tehran, Isfahan, Mashhad, Tabriz among others; making Iran a credible investment destination. This can be attributed to the heightened security measures in central locales as well as prolonged security operations across the country. Additionally, instances involving civil unrest also are rare, at least in central locales.
GOOD TRANSPORT INFRASTRUCTURE AND HUMAN RESOURCES WITH ENTREPRENEURIAL SKILLS

Given Iran’s strategic geographical location, it boasts of decent network of roads, rail and air network which connect all major cities and towns as well as has succeeded in establishing rail and road network in many central Asian states, thus making it an attractive destination for investments in terms of trade and transportation and also a nodal junction for trade heading towards the landlocked Central Asian Republics (CAR’s). Give the country’s reliance on shipping of energy products, has also enabled development of major ports both in the Caspian region in north as well as in the Persian Gulf, with projects on expansion and upgrades to existing ports as recorded in case of Chabahar in south-eastern Sistan-Baluchistan Province. Secondly, compared to other countries in the region, Iran has a sizeable youth population with high literacy rate, which can be trained in specific skill sets to suit business requirements and given the high unemployment rates, it provides opportunities for availability of relatively cheaper labour, which is beneficial for business.

PRO-WESTERN/EUROPEAN STANCE AMONG BUSINESS COMMUNITY AND URBANIZED YOUTH AND ITS IMPACT

Despite the fact that certain segments within the Iranian government continue to maintain an anti-western stance, pro-western sentiments continue to be witnessed, especially among the urbanized youth, with a rising demand for western consumer goods. This thus provides a lucrative prospect for trade in the country.

POSITIVE DEVELOPMENTS FOLLOWING JCPOA-including increased oil sales

Despite the overall hesitation of international investors, the JCPOA agreement has shown some credible results, as can be gauged from a surge in Iran’s oil exports, with crude and gas condensate exports till March 20 exceeding 3 million barrels per day (Mbpd) as per the National Iranian Oil Company (NIOC), and which is in line with the latest OPEC production agreement which is expected to last at least till the first half of 2017. Additionally, JCPOA also enabled lifting of restrictions on ship insurance, enabling domestic as well as international carriers to ship out Iranian crude to markets in Asia and Europe thus enabling a boost to future exports.
Given the overall trends in preceding months, coupled with challenges and opportunities that have been mentioned in the aforementioned sections, the following pattern can possibly be expected in the upcoming months:

1) Given the interests of the European and Iranian leadership including continued adherence and lack of violation of the JCPOA provisions, it remains likely that the agreement will hold, at least in the short to medium term.

2) However, business investments are less likely to see any significant rise in the months leading to and immediately following the Presidential elections and a relative status quo can be expected. This can likely be attributed to further clarifications by the US government on its stance vis-a-vie Iran, as well as the announcements and possible introduction of new policies, if any, by the new elected Iranian President. In the meantime, at best, business deals may involve signing of Memorandum of Understanding (MoU’s) but actual implementation of big ticket projects like development of major offshore gas fields, development and upgrades of major ports or other infrastructure remains less likely, given the aforementioned challenges, under which investors are likely to adopt a wait and watch approach, for the projects to be economically viable.

3) Asian companies, primarily those from China followed by Japan, South Korea and India along with Turkey are more likely to engage and invest in infrastructure, transport and communication and engineering projects and continue with the ongoing energy projects; whereas European businesses are more likely to focus on, as well as seek energy projects along with power plant projects. Additionally, the European energy firms are more likely to gain lucrative upstream projects in the country, given the failure of Chinese and Indian firms to deliver on major energy projects. For instance, suspension of contract of the Chinese National Offshore Oil Corporation (CNOOC) on development of the North Pars Gas field by Iran in 2011 and cancellation of contract awarded to China National Petroleum Corporation (CNPC) in south Azadegan oil field in 2014, among other projects and continued hurdles faced in negotiations on an agreement on development of the Farzad B gas field by India’s Oil and Natural Gas Corporation’s overseas arm ONGC Videsh (OVL).
Parallely, the continued interests by European giants like the Total S.A. and Royal Dutch Shell in Iranian upstream projects make them the preferred choices over Asian energy companies. However, actual implementation and execution of the agreements in the energy sector are less likely in the coming weeks and months. At best investments are likely to be recorded in downstream sector, given the aforementioned revival of oil exports.

4) Automobile and engineering sectors along with additional follow-up deals in aviation sector, including additional sales of aircrafts and spares also remain likely. Moreover, given Iran's intention to re-introduce itself into the global economy will require an upgrade as well as development of new airports across the country, aimed at facilitating trade and passenger movements across the country. This thus presents another area in which Iran may seek FDI.

5) Consumer goods sector shows promising sign of growth especially, given Iran's large young and urbanized population, especially cosmetics and selected luxury goods. Moreover, Iran would preferably seek to diversify its suppliers of such goods from the existing Chinese sources, which continues to dominate the Iranian market since the sanction years.

6) Direct engagement with major American business remains less likely to make significant inroads, given the prevailing anti-American and anti-Iranian sentiments in Iran and US policy circles respectively. However, prospects for growth, as demonstrated by recent US$ 16.6 billion deal with Boeing continues to remain promising in the near future. In this case market dynamics may bypass political and ideological differences.

7) Limited Russian engagement in defence and civil nuclear sector also remains likely over the coming months, given the latest attempts by Iranian security forces in upgrading its military hardware and relative shortfall of the domestic defence industrial base to cope with the demands. However, the restrictions on arms import under the JCPOA may significantly limit the sale of arms. In terms of deals in civil nuclear cooperation, the high dependence of the Iranian power sector on gas to generate electricity has forced the country to consume a majority of the gas it produces, leaving very little for exports. By switching to nuclear energy, Iran may use the surplus gas for exports and earn valuable foreign exchange, especially in light of the rise in demand for the commodity, especially in Asian markets like India.

8) FDI in mining as remains primarily contingent upon the future decisions by the Iranian authorities and it ability to roll out lucrative, mutually beneficial deals in the times to come.
To conclude, it can be said that Iran has, albeit to a limited degree, managed to reap the economic benefits following its conciliatory stance on the nuclear issue and if it continues to adhere to the commitments as agreed upon in the JCPOA, is likely stave off sanctions, facilitating additional international businesses. The successes of the moderate camp in the political arena, as demonstrated in the overwhelming majority in Parliament, as well as the current voters confidence in Rouhani indicate that the moderates are in a better position than the conservatives in the upcoming Presidential elections, scheduled on May 19, which may result in a continued conciliatory approach, keeping the possibility of exacerbation of tensions and risk of derailment of JCPOA agreement to a bare minimum. Overall, prospects for Iran's economic and political re-engagement seems bright given the current situation, however certain international and domestic challenges continues to be addressed over the coming months.